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FOSTERING AN ENABLING ENVIRONMENT FOR DEVELOPMENT: FINANCIAL FLOWS, INCLUDING CAPITAL FLOWS; INVESTMENT; TRADE

Draft agreed conclusions submitted by the President of the Council

1. During its high-level segment (2-4 July 1997), the Council carried out a comprehensive review of the theme "Fostering an enabling environment for development: financial flows, including capital flows, investment and trade". On 2 July, a stimulating dialogue was held with the Managing Director of the International Monetary Fund (IMF), the Director-General of the World Trade Organization (WTO), the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), the Under-Secretary-General in charge of the economic and social departments of the Secretariat and the Vice-President of the World Bank. On 4 July, a panel discussion with a group of eminent persons from the business and academic worlds was also held.

2. The Council took note of the World Economic and Social Survey, 1997 (E/1997/50) and the report of the Secretary-General (E/1997/67).

I. THE CONTEXT

3. The Council considered the theme in the context of the current global economic environment and recognized that the overall world economic outlook was favourable. At the same time, growth is not spread widely enough and the gap between developed and developing countries remains unacceptably wide.

For many countries, particularly the least developed and the African countries, the threat of marginalization is real. Many continue to suffer from slow economic growth or stagnation. Also, unemployment is at unacceptably high levels, not only in developing countries but also in developed countries and countries with economies in transition.

4. Globalization is a fact and a dynamic force. It offers opportunities as well as risks. The global opportunities created by it must benefit all countries and the risks associated with it should be managed and minimized. This will require strengthened international cooperation as well as careful stewardship and sound policies.

II. FRAMEWORK FOR INTERNATIONAL COOPERATION AND NATIONAL POLICIES

A. Strengthened international cooperation

5. Each country has the primary responsibility for its own development. However, international cooperation and partnership have a vital role in creating a favourable climate in which capital flows, investment and trade can flourish.

6. The broad elements of an enabling international environment for development include: the creation and maintenance of stable international conditions; democratization in international relations in accordance with the Charter of the United Nations and international law; establishment of an open, rule-based, equitable, secure, non-discriminatory, transparent and predictable multilateral trading system; and support for the weakest and most vulnerable members of the international community through more favourable treatment in trade and finance.

7. The above calls for better integration of developing countries, including, in particular, the African countries and the least developed countries as well as landlocked developing countries and small island developing States, and the economies in transition into the world economy, which requires enhancing their capacity to become equal partners in the world economy. The international community should support national efforts for capacity-building in developing countries, including infrastructure and manpower development and research and development. In this regard, South-South cooperation and technical assistance from developed countries are also essential elements in promoting capacity-building in developing countries.

8. An international enabling environment also requires coordination of macroeconomic policies by the international community which foster conditions of stability, predictability and growth in the world economy, stable exchange rates, low interest rates and low fiscal deficits, as well as trade liberalization, more equitable access of developing countries to global markets, an increased flow of productive investments, technologies and knowledge to developing countries, and new and additional financial resources from all sources. It also calls for broadening and strengthening the participation of developing countries in international economic decision-making processes.

9. International cooperation efforts should be intensified and strengthened towards the developing countries' endogenous capacity-building in science and technology. There is a need to promote, facilitate and finance, as appropriate, access and transfer of environmentally sound technologies and the corresponding know-how, in particular to developing countries on favourable terms, including concessional and preferential terms, as mutually agreed, taking into account the need to protect intellectual property rights as well as the special needs of developing countries.

B. National policies

10. Democracy, respect for all human rights and fundamental freedoms, including the right to development, transparent and accountable governance and administration in all sectors of society, and effective participation by civil society are an essential part of the necessary foundations for the realization of social and people-centred sustainable development. The empowerment of women and their full participation on the basis of equality in all spheres of society is fundamental for development.

11. The development and maintenance of adequate economic and social infrastructure, in particular a trained workforce and telecommunications and transportation facilities, are essential for the integration of countries in the world economy and should be given priority and receive the full support of the international community. Innovative policies designed to promote public-private partnerships to meet the enormous demands in these areas also need to be pursued.

12. An essential component of an enabling environment for development is sound national macroeconomic policies and the creation of favourable conditions for investment and increased domestic savings, including through the creation of a sound banking system. Governments must also provide for social and economic infrastructure development, basic social services and, in particular, the needs of women and children. People living in poverty should be assured access to micro-credit in order to enable them to undertake micro-enterprises, which in turn generate self-employment and contribute to achieving empowerment, especially of women, and the strengthening of institutions supportive of micro-credit should therefore be encouraged.

13. Many countries are undertaking structural adjustment and reform and are pursuing their outward-oriented policies. Their efforts need international support. Particular attention needs to be paid to integrating the social dimension in structural adjustment programmes to ensure equity and the empowerment of people living in poverty and of the disadvantaged and vulnerable groups of society.

C. Role of the United Nations system

14. The United Nations system, given its unique universal composition and reach, has a specific role to play in promoting an enabling environment for development. Through, *inter alia*, the recent cycle of international conferences, the United Nations has promoted agreements and understandings on policies and goals for development and has given further impetus to national action and international cooperation for development. The United Nations system must now promote effective implementation of the agreements reached by strengthening its normative and operational role in development.

III. POLICY ISSUES

A. Policy coherence

15. With the accelerating integration of the world economy, the interaction between the macroeconomic, structural, trade, financial and development aspects of economic policy-making has increased and is likely to intensify further. In the current economic environment, the question of policy coherence has thus emerged as a critical one for all participants in the global economy. An important aspect of policy coherence that affects the international environment for developing countries is the need for greater

coherence to maximize the impact of development cooperation. The United Nations, the Bretton Woods institutions, and WTO also need to provide coordinated support.

16. There is a need for an international dialogue on issues of policy coherence, and one of the Council's high-level meetings with the Bretton Woods institutions and WTO, called for under General Assembly resolution 50/227, should be devoted to this topic. Further study of these issues is required including by the Committee for Development Planning or its successor arrangements in order to develop approaches and modalities that the Council could consider at a subsequent session.

B. Marginalization

17. Many developing countries were not able to benefit from the globalization of the world economy over the past decade. Effective measures are called for to assist in their integration into the world economy.

18. The least developed countries face the greatest risk of marginalization. Many other countries in Africa, notably those south of the Sahara, are similarly challenged - they lack various elements in the physical, financial, human and institutional infrastructure necessary to enter and compete effectively in international markets. Structural difficulties also deter inflows of foreign direct investment (FDI) and more generally, perpetuate the dependence on a few highly volatile exports. Domestic supply-side constraints seriously limit export capacity. In many cases, the difficulties are compounded by the heavy burden of external debt service, erosion of trade preferences, deterioration in the terms of trade, and decline in the overall level of official development assistance (ODA).

19. Marginalization is also faced by the most vulnerable groups in all countries. Increased competition under a liberalized global economy therefore calls for greater concern for the promotion of equitable distribution of income and greater access to resources through equity and equality of opportunity for all. Globalization should be balanced by social progress through policies that encourage job-creating growth and ensure social safety nets.

C. Official development assistance

20. ODA remains an essential source of external funding. The overall decline in ODA is a cause for serious concern. Moreover, a significant proportion of ODA is funding emergency relief, thereby affecting availability for long-term development needs.

21. It is important to reverse the overall decline in ODA flows and to achieve internationally agreed ODA targets as soon as possible. Such assistance should focus on developing countries, with particular priority to Africa and the least developed countries. Some donor countries have achieved or exceeded the accepted United Nations targets to allocate 0.7 per cent of GNP for overall ODA and 0.15 per cent of GNP for ODA for the least developed countries and are encouraged to continue to do so. Other developed countries reaffirm the commitments undertaken to fulfil these targets as soon as possible. Countries that are in a position to do so should strive to augment their assistance in the framework of development cooperation. The statements made by some countries to increase ODA are welcome.

22. The Council welcomes the decision of the IMF Interim Committee to make the Enhanced Structural Adjustment Facility (ESAF) a permanent facility. Further efforts are called for to ensure that internationally supported adjustment programmes, including ESAF-supported programmes, incorporate social safety measures and restructuring of public expenditure, including increases in expenditure related to primary education and primary health services, in line with the recommendations of the World Summit for Social Development. The speed and sequencing of these programmes and safeguards for social equity are critical for their success.

23. In order that international financial facilities, particularly the International Development Association (IDA), have more positive effects on development, the commitments for their replenishment, including the eleventh replenishment of IDA, should be fully implemented in a timely manner. Contributions to multilateral financial facilities have fallen off. It is essential that multilateral aid disbursements are not disrupted but are maintained or increased.

D. External debt

24. One of the specific obstacles over the past decade to the development efforts of many developing countries, in particular those in Africa and the least developed countries, has been the heavy burden of external debt-servicing. Even with sound economic policies and the full application of the debt-rescheduling arrangements of the past few years, a number of countries continue to face an unsustainable level of external debt-servicing. Debt-service problems of middle-income countries should also continue to be addressed effectively.

25. There is an urgent need for effective, equitable, development-oriented and durable solutions to the external debt and debt-servicing problems of developing countries, and to help them exit from the rescheduling process. The evolving debt strategy has contributed to the improvement in the debt situation of a number of developing countries. Debt-relief measures have been undertaken by creditor countries both within the framework of the Paris Club and through their cancellation and equivalent relief of bilateral official debt.

26. The international community, including the international financial institutions, is invited to continue to explore ways of implementing additional and innovative measures to alleviate substantially the debt burdens of developing countries, in particular of the highly indebted low-income countries, in order to help them to achieve sustained economic growth without falling into a new debt crisis.

27. In this context, the Heavily Indebted Poor Countries (HIPC) Debt Initiative is welcomed. Its timely and speedy implementation is called for. The implementation of the Initiative requires additional financial resources from both bilateral and multilateral creditors without affecting the support required for development activities of developing countries. The urgent need is stressed for developed countries to give the Initiative the support it both needs and deserves and to implement it flexibly to ensure that the performance already achieved is taken into account in determining the duration of adjustment required to reach, with the assistance of all creditors, an exit from debt rescheduling. The importance of implementing the Initiative's eligibility criteria flexibly, in a transparent manner, and with the full involvement of the debtor country, and of continuously evaluating and actively

monitoring the implications of the existing terms of the eligibility criteria in the implementation of the Initiative, so as to ensure sufficient coverage of heavily indebted poor countries, are also stressed.

E. Volatility and vulnerability

28. The increased integration of the world economy has the potential for increased volatility, particularly in international financial markets. The volatility in prices of primary commodities, interest rates and exchange rates has a disproportionate impact on developing countries. Integration of financial markets also tends to increase the downside risk of a sudden reversal of financial flows for an individual country, as well as the possibility of spillover effects on others.

29. The dramatic increase in capital flows to emerging markets has contributed to sustained economic growth, but it has also complicated macroeconomic management. Sound macroeconomic policies remain an essential ingredient to prevent volatility, but speculative capital movements can threaten the stability of countries.

30. The prevention of financial crises will require enhanced early warning mechanisms, including improved and effective surveillance of national and international financial markets. It will also require that multilateral institutions have the capacity to respond in a quick and coordinated fashion to potential crises. IMF is encouraged to fully exercise its role of overseeing the international monetary system to ensure its effective operation. In this regard, the efforts undertaken since 1995 to strengthen surveillance, to ensure that IMF is better equipped to identify emerging crises at an early stage and to facilitate its rapid response to such crises are welcomed.

31. It is recognized that there is a need to strengthen international cooperation and consultation to prevent spillover effects of crises associated with the volatility of financial flows. International action is required to improve and coordinate regulatory frameworks for international financial transactions.

32. The importance of ensuring that IMF has sufficient resources to assist its members is underlined. In this connection, the timely conclusion of the

general review of quotas is encouraged. Potential participants are called upon to ensure that the New Arrangements to Borrow become effective as soon as possible.

F. Foreign direct investment

33. Most developing countries have liberalized their FDI alongside their trade regimes. Although most FDI and portfolio capital still flow to industrialized countries, an increasing proportion is going to developing countries. However, FDI and portfolio flows are highly concentrated, mostly in parts of Asia and Latin America. In recent years, Africa has received only a very small part of total net private flows despite extensive reforms that continue to be implemented.

34. The growth in FDI in developing countries is of particular importance. A challenge to the international community in contributing to an enabling environment for development lies in encouraging capital and investment flows across a broader range of developing countries.

35. FDI plays an increasingly important role in economies in transition. These countries would benefit more if the structure of FDI better reflected the need for investments in productive and export sectors of their economies. Creating a favourable investment climate would facilitate this aim.

36. In the light of the increasing importance of foreign direct investment in the world economy, the Council notes that UNCTAD, WTO and the other organizations concerned are studying the relationship between trade and investment.

G. Trade and commodities

37. An open, rule-based, equitable, secure, non-discriminatory, transparent and predictable multilateral trading system is a key element in fostering an enabling environment for development and is also essential for deepening the flow of technology and information around the world. There is a need to promote the universality of WTO and to facilitate the admission, in an expeditious manner, to membership in that organization of developing countries and of countries with economies in transition applying for membership, through transparent implementation of the relevant WTO provisions in this regard.

38. Trade liberalization should eliminate discriminatory and protectionist practices in international trade relations, which will have the effect of improving access for the exports of developing countries and should cover

access to technology, to distribution channels and to information networks. With the growing internationalization of the services sector, further action should be taken to facilitate the participation of developing countries in international service liberalization.

39. The importance of fully and expeditiously implementing the Marrakesh Declaration, the Ministerial Decision on Measures in Favour of Least Developed Countries and the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food-Importing Developing Countries is stressed.

40. Commodity exports continue to play a key role in the economies of many developing countries. Diversification of their economies is essential for their development. The international community should endeavour to improve the functioning of commodity markets with greater transparency and more stable and predictable conditions and should provide greater access to the export products of those countries.

41. Continuing concerted action is needed to remove lingering, disguised and other obstacles to free and open trade. The liberalization of trade regimes and the promotion of an open and secure multilateral trading system are central requirements for the promotion of economic development. All countries have a shared interest in an open, rule-based, equitable, non-discriminatory, transparent and predictable multilateral trading system. All Governments should commit themselves to the liberalization of trade and investment policies and should foster international cooperation towards this goal. Without prejudice to the clear understanding in WTO that future negotiations, if any, regarding a multilateral agreement on investment will take place only after an explicit consensus decision, future agreements on investments should take into account the objectives of sustainable development, and when developing countries are parties to these agreements, special attention should be given to their need for investment. The Uruguay Round Agreements provide the framework for an open, rule-based, equitable, secure, non-discriminatory, transparent and predictable multilateral trading system. All members of WTO should implement their commitments fully and all provisions of the Final Act of the Uruguay Round should be effectively applied to maximize economic growth and the development benefits for all, taking into account specific interests of developing countries. The full realization of the anticipated benefits

from the conclusion of the Uruguay Round also requires that confidence in the integrity and credibility of the multilateral trading system be upheld. In this respect, the WTO dispute settlement mechanism is a key element of the credibility of the multilateral trade system. It is essential for all countries to respect and fulfil the totality of the undertakings of the Uruguay Round. Unilateral actions of a protectionist nature, inconsistent with multilateral trade agreements, should be avoided and prevented. Appropriate monitoring measures should continue to ensure that, in the implementation of the Uruguay Round, the rights, interests and concerns of all countries are protected, recognized and redressed. In this context, the importance of continuing and intensifying international dialogue on issues of interest for developing countries, in particular the least developed countries among them, in appropriate forums, is recognized.

42. The strengthening of the supply capacity of exportable goods and services in the least developed countries, as well as market access, is called for. The Council encourages the United Nations system, including IMF and the World Bank, WTO and UNDP, to provide coordinated support for action in this area, and urges all countries to participate in the forthcoming High-Level Meeting on Integrated Initiatives for Least Developed Countries, organized by WTO, UNCTAD, the International Trade Centre, the World Bank and IMF, which is to be held on 27 and 28 October 1997.